

## To Whom It May Concern:

We understand that you might be interested in forming some kind of business relationship with Desktop Hollywood centered around our Avid non-linear editing system. I'd like to explain our situation to you briefly, and describe the kind of arrangement we would like to make.

Ted Nelson, the owner of the Avid, bought it in June of 1991 to finish a short film he had begun many years ago and to make new low-budget feature films. However, other projects (besides being a filmmaker, he is also a writer, speaker and software designer) have demanded his full time and attention.

He set up Desktop Hollywood as a way of letting the Avid pay for itself. We have built a special editing suite for it here in Sausalito at his studio. It consists of the room where the Avid is and an anteroom with desks, a refrigerator, microwave, etc. The main body of his studio is completely separate from these two rooms, so clients can come and go without disturbing those working in the studio. We put a very expensive digital programmable lock on the main door to these two rooms so that we can completely control who has access to the Avid. The rooms are also protected by an alarm system. The Avid is available to clients 24 hours a day, 7 days a week.

We rent the Avid out at the lowest prices in the Bay Area (see attached flyer and rate sheet). We can do that because our Avid only has resolution to AVR2. So our clients use it strictly for editing and then take their Edit Decision List to an on-line suite. Happily, there is a low-budget on-line company, VideoTracs, just up the hall from our Studios. There is also a production company, Flying Rhino, right next door to us; they do all kinds of animation, computer graphics, 3D work, etc. I'm attaching rate sheets and/or flyers from both of these companies.

Our situation is this: we will very likely be leaving the Bay Area sometime in the next few months to pursue opportunities abroad. We hate to close the business down, especially as we've invested a good deal of money and energy this year promoting it. We're listed in the Reel Directory and the IICS Directory, we've put ads in various post-production periodicals, and we've taken the Avid on the road to Multimedia Expo and other trade shows. Our associate, Colleen Fernald, designed some clever business cards for us (see attached) and we've distributed our flyer/rate sheet to many prospective clients.

The kind of arrangement we would like would be one where Desktop Hollywood continues, but someone such as yourself makes the profit and pays the expenses for some designated period of time, not less than a year. The monthly expenses are as follows:

Avid lease, maintenance, insurance	\$2000
Rent (pro-rated from entire studio rent) [electricity is included in this figure]	500
Alarm system	50
Total	\$2550

This would be the amount you would pay to us each month. We in turn would pay the leasing company, the landlord and the alarm company.

Your basic other expenses would be as follows:

### 1. Business Manager

The obvious choice for this would be Colleen; she's enthusiastic and she knows the business. She's learning the Avid and has other computer skills, including graphics design, word processing and bookkeeping. She could do the scheduling, return phone calls, handle mail, do promotional mailings for you, orient clients, keep the alarm system and digital lock programmed, keep supplies in stock, do client billing, etc. This could be done on a part-time

basis. She might be interested in doing this for a base pay plus commissions (we pay 25%) for business brought in. She has considerable marketing talents which we really haven't tapped fully, since we needed her on other projects. Anyway, this would be completely up to the two of you to discuss and arrange.

## 2. Facilities Manager

You need someone to keep the system tuned and to troubleshoot in case of hardware or software problems. Our facilities manager, Jim Raschick, would be happy to maintain the system for you under the same arrangement he has with us: we pay him 10% of the gross income from rental of the Avid to clients. In addition, we give him unlimited use of the Avid, during unscheduled hours of course, for his own projects. Jim also gives demos to prospective clients and has been the Avid editor for several of our clients. We can recommend him highly. Jim's time as an editor is billed at \$25/hour.

## 3. Other Professionals

One other professional relationship we have is with Michael Wanger, a professional Producer and Editor; he edited one of his major projects on our Avid and he has worked with various of our clients as the editor on the project. His editing time is billed at \$35/hour. In exchange for doing demos, we give him Avid time for personal projects. We appreciate Michael greatly and hope this relationship will be maintained.

## 4. Telephones

There are already two lines installed and listed as Desktop Hollywood. The simplest thing would be to keep these numbers and have the bill sent directly to you. We have an MCI system that requires the person placing the call to have an access code for long distance calls, so you can bill the client back for any calls they make. The basic cost of the phones is about \$50 and you should probably allow another \$50 for other non-client calls.

## 5. Goodwill

Ted would expect some small percentage, say 15%, of gross business. He is basically passing on two years of solid groundwork in terms of clientele, personnel, professional relationships, etc.

Your profits would of course depend on how heavily booked the system is; you have undoubtedly your own contacts, and we have several clients here who plan to come back with their next project. And there is always the hope of new clients.

At the end of the designated time period, we would expect to reconsider and renegotiate the arrangement. We hope you see this as a way to try out the Avid without making the major financial commitment that's usually involved.

We hope to hear from you as soon as possible, as we are discussing other possibilities and must make a decision quite soon.

Thank you for your time and consideration.

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December 8, 1993